

CtW Investment Group

January 23, 2006

E. Mac Crawford
Chairman, President and CEO
Caremark Rx, Inc.
211 Commerce Street, Suite 800
Nashville, TN 37201

Dear Mr. Crawford:

We write to urge the Caremark Rx, Inc. board of directors to immediately disclose its expected designees to a merged CVS/Caremark board, including the intended chair of the Audit Committee. Given our concern that six of Caremark's nine non-employee directors appear to have accepted improperly backdated options as compensation, this disclosure—which is absent from the joint CVS/Caremark merger proxy statement dated January 19, 2007—is necessary to enable shareholders to properly evaluate the independence and integrity of the merged company's board. As a result, it is highly relevant to the voting decisions that both Caremark and CVS shareholders will make at their companies' special meetings next month.

As you know, Caremark is under investigation by both the Securities and Exchange Commission and the U.S. Attorney for the Southern District of New York for allegedly backdating options for its executives. We first detailed our concern that Caremark's non-employee directors may have also received backdated options in a December 21, 2006 letter to Caremark director Michael D. Ware. In that letter, we called for a special committee of independent directors to investigate possible backdating of executive and director options and to report to shareholders prior to any special meeting to approve a merger. After receiving a perfunctory response from management, we reiterated our request in a January 11, 2007 letter to Mr. Ware. We regret that Caremark's board has failed to act on our requests and that Caremark instead scheduled a shareholder vote on the CVS merger for February 20.

As detailed in our December 21 letter, we believe non-employee directors who receive improperly backdated options as compensation have compromised their own independence. In addition, the Caremark board's initial decision to approve a merger with CVS that provided substantial benefits to Caremark executives but virtually no premium to Caremark shareholders—and to stick with that offer despite receiving a higher bid from Express Scripts—further reinforces our concerns about the independence and integrity of Caremark's directors. CVS only raised its bid after Express Scripts announced its exchange offer, but Express Scripts' offer—which Caremark attacked this morning as “destructive to shareholder value”—remains higher.

The independence of Caremark's non-employee directors is particularly relevant in the context of the upcoming special meeting because, if approved by both companies' shareholders, the merged CVS/Caremark board will consist of equal numbers of directors designated by each company. The joint proxy statement fails to disclose either the names of each company's designated directors—other than yourself and current CVS Chairman Thomas M. Ryan—or even the size of the merged company's board. Instead, according to the proxy statement, these will be determined sometime “prior to the effective time of the merger.”

Equally disturbing, the joint proxy statement also indicates that the Caremark-designated directors will select the chairman of the CVS/Caremark Audit Committee; under the charter of the CVS Audit Committee, apparently to remain unchanged with the proposed merger, that committee oversees the company's financial statements and its auditors, as well as compliance with CVS's Code of Conduct and

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legal and regulatory requirements. Granting Caremark directors the power to appoint the Audit Committee chairman seems preposterous given that three of the five directors on Caremark's own Audit Committee, including chairman Roger L. Headrick and directors Edwin M. Banks and Kristen Gibney Williams, appear to have received improperly backdated options. This raises the prospect that they may have overseen the preparation and dissemination of financial statements and proxy statements that they knew, or should have known, were inaccurate.

The CtW Investment Group works with pension funds sponsored by unions affiliated with Change to Win, a federation of unions representing nearly 6 million members. These funds are substantial long-term shareholders which we estimate own approximately 1.5 million shares of Caremark common stock. In addition, public pension funds in which members of Change to Win unions participate own an additional estimated 18.7 million Caremark shares.

We refer you to our December 21 letter to Mr. Ware, a copy of which is enclosed (together with our January 11 follow-up letter), for a detailed analysis of Caremark's historical stock option grants to both executives and directors. We have subsequently performed additional analysis in order to assess how likely it is that the suspiciously-timed grant dates for directors were determined by chance. We detail this updated analysis below.

Updated Analysis of Caremark's Historical Stock Options Grants to Directors

As described in the enclosed December 21 letter to Mr. Ware, we examined the pattern of pre- and post-grant date share price changes for all grants to current Caremark directors between 1997 and 2001. We found that six of Caremark's nine independent directors—including the chairmen of the Audit (Mr. Headrick), Compensation (Harris Diamond), and Nominating and Corporate Governance (C. David Brown II) committees—received option grants that fit the pattern associated with backdating (declining price prior to the grant, rising price following the grant):

Director	Grant Date	-30 days	-20 days	-10 days	+10 days	+20 days	+30 days	Rank
Edwin M. Banks	5/31/2000	6.50%	-11.01%	-13.43%	6.27%	12.38%	43.40%	28
C. David Brown II	3/20/2001	-6.02%	-17.05%	-9.75%	0.40%	2.24%	25.36%	17
Harris Diamond	5/31/2000	6.50%	-11.01%	-13.43%	6.27%	12.38%	43.40%	28
Kristen E. Gibney Williams	3/8/2000	-13.78%	-12.61%	-9.98%	7.99%	36.86%	57.99%	9
Roger L. Headrick	1/31/1997	-9.70%	-8.64%	-15.36%	21.54%	18.80%	28.89%	1
	10/19/1998	-7.60%	-23.00%	-16.00%	59.74%	67.97%	94.81%	4
	3/8/2000	-13.78%	-12.61%	-9.98%	7.99%	36.86%	57.99%	9
C.A. Lance Piccolo	10/19/1998	-7.60%	-23.00%	-16.00%	59.74%	67.97%	94.81%	4
	3/8/2000	-13.78%	-12.61%	-9.98%	7.99%	36.86%	57.99%	9

In addition to examining the pattern of pre- and post-grant date performance for the option grants to Caremark's independent directors, we sought to assess how likely it is that these grant dates were determined by chance. First, for each calendar year from 1997 to 2001, we ranked each trading day according to Caremark's share price change over the following 30 days. We then examined the ranks for the days on which independent directors received option grants. We found that these grant dates uniformly ranked among the very best dates on which to have received a grant in the relevant calendar year, as measured by performance over the subsequent 30 days.

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We note that there are five different grant dates listed above, and that the average rank for these dates is 11.8. We randomly generated 1000 sets of ranks, each with five members drawn from between 1 and 252 (a typical number of trading days in a year). For each of these sets, we computed the average rank, and then compared these averages to the actual ranks of the grant dates for independent directors. We found that the difference in average rank between the actual ranks and the simulated ranks would have only a 0.002% probability of occurring by chance.

We also compared the average post-30 day performance for all option grant dates for the above directors between 1997 and 2005 to the average post-30 day performance for all trading days over these years. Thus, this analysis includes option grants that do not exhibit the pattern of pre- and post- grant date performance associated with backdating. We found that there is only a 7.8% probability that the difference in average performance between the grant dates and all dates over these years was the result of chance.

There is one grant date in this sample—a grant to Kristen Gibney Williams on February 7, 1999—which clearly does not exhibit the backdating pattern, and which in fact had the second-worst post-30 day performance of any date in 1999. If we exclude this grant date from our analysis, there is no more than a 1.2% chance that the difference in average performance between director grant dates and all trading days could have occurred by chance.

These findings strongly suggest Caremark's board increased their own compensation by backdating stock option grants for themselves as well as company executives, but neither disclosed this practice to its shareholders nor properly expensed the value of these options as was required under either FASB Statement 123 or APB Opinion No. 25.

Impending Special Meeting Necessitates Immediate Disclosure of Designated Directors

The Caremark special meeting is now less than four weeks away. In order to provide shareholders with the information necessary to assess the fundamental independence and integrity of the merged CVS/Caremark board, we urge you to immediately disclose Caremark's designees to that board, including the intended chair of that board's Audit Committee.

Sincerely yours,



William Patterson
Executive Director

cc: Thomas M. Ryan
Chairman, President and CEO
CVS Corporation
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Woonsocket, RI 02895

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c/o Corporate Secretary
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